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The Illinois State Toll Highway

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Authority 1997 Annual Report

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The demands on the

The demands on the Tollway are as unique and important as each of our customers.

We're listening to the concerns of our customers. And we're responding. In 1997, we reaffirmed our commitment to managing the Tollway system entrusted to us responsibly and responsively. Our goals: to continue to find ways to relieve congestion, to prepare for projected traffic growth while maintaining our existing system and to provide the highest level of service to our customers.

We are pleased to report we made major progress on all fronts during the year. Examples include:

Tapping the potential of I-PASS In 1997, we channeled significant energy and resources into the planned rollout of I-PASS electronic toll collection. Over the past several months, we launched a driver awareness advertising blitz, introduced an automatic replenishment program and awarded the contract to make it possible to open an account over the phone. We also partnered with the Secretary of State Driver Services Facilities and a cellular service provider to distribute I-PASS applications.

Now, I-PASS transactions number more than 100,000. But we're not content to stop there.

By the beginning of 1998, we will have completed installation of new I-PASS technology on almost all of the lanes outfitted with our old electronic toll collection equipment. At the same time, we are adding I-PASS lanes throughout the system to give drivers more opportunities to reap the convenience and time-saving benefits of the program. Our target is road-wide availability of I-PASS by the end of the year.

Beyond the obvious benefits of I-PASS lie additional ways to improve our system for all drivers. For example, to ensure all Tollway users pay equally, we are incorporating video surveillance for toll evasion into all plazas in conjunction with I-PASS.

Farther down the road, we plan to tap I-PASS as a traffic management tool, while of course maintaining the strictest motorist confidentiality. Using transponders, the Authority will be able to automatically collect up-to-the-minute travel times. We can then post this information on our variable message signs and release it to area radio stations to alert drivers to possible delays or alternative routes. The Illinois Department of Transportation (IDOT) has agreed to place additional reader points off our system to expand the area monitored for travel times.

Maintaining the system at peak performance Safe roads are our paramount objective. To prevent accidents, we are doing our best to keep cars moving at a steady pace–through faster toll collection, more efficient removal of disabled cars out of mainline traffic and improved maintenance of roadways, ramps and bridges.

With 1,595 lane miles of roads, there's always work to be done. Among the many projects completed in 1997: resurfacing of 13 miles of the East-West Tollway (I-88) between the Tri-State Tollway (I-294) and Naperville Road, building new collection facilities on the Northwest Tollway (I-90) and rehabilitating several bridges and upgrading plazas on the Tri-State. We are pleased that all work was performed with minimal gridlock and aggravation to Tollway customers, while ensuring a safe work environment and a safe traffic flow.

Equally important, we are pleased that in 1997, for the third year in a row, we achieved our operations and maintenance objectives while growing our budget less than the rate of inflation.

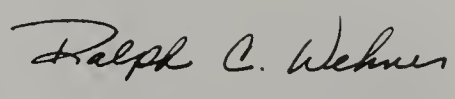
Opening the door for community input on Lake County transportation To develop a better transportation system for residents and commuters of Lake County, the Authority and (IDOT) established the Lake County Transportation Improvement Project in 1997. This initiative is unique in that it looks beyond just highways as an answer to the transportation challenges resulting from Lake County's rapid growth, examining a much broader range of solutions such as transit, bike trails and pedestrian walkways.

Right now, we're in phase one of a two-part study that focuses on planning, environmental and public involvement activities. We view the process as collaborative, bringing together various federal, state and local government agencies and affected communities to ensure we address everyone's needs and concerns.

We invite interested parties to visit the Project's office at 25663 Hillview Court, Mundelein-open 7:30 a.m. to 4 p.m. weekdays-or to call 847/438-3442 for a schedule of meetings we're conducting throughout the county with civic and community groups.

As we prepare for the challenges ahead, we thank the customers of the Tollway for their support and encourage their involvement and comments.

Julian C. D'Esposito, Jr.
Chairman



Ralph C. Wehner, P.E.
Executive Director

(left to right) James J. Banks; Robert L. Turner; Executive Director Ralph C. Wehner; Chairman Julian C. D'Esposito, Jr.; Arthur W. Philip, William E. Dugan; Paula S. Fasseas; Lance B. Wyatt; Roger C. Claar
(not pictured) Governor Jim Edgar (ex officio); Secretary, Illinois Department of Transportation Kirk Brown (ex officio); Thomas Fitzgibbon

Better roads Less travel time More convenience

Better road

No reaching for coins. No lowering the window. No stopping to pay tolls. Moving at the speed of I-PASS.

Paying tolls electronically became simpler, faster and very popular in 1997.

We opened 203 I-PASS lanes throughout the system, including five I-PASS only lanes on the central Tri-State. By the end of 1998, we expect all 405 toll collection lanes to have I-PASS, including a total of 20 I-PASS only lanes on the Tri-State, East-West and Northwest.

Perhaps the biggest news is the late 1998 debut of our first I-PASS EXPRESS lanes, which will allow cars and trucks to pass through plazas at the speed limit. The design provides two I-PASS EXPRESS lanes in each direction on the new Edens Spur Plaza off the north Tri-State and at Boughton Road on the North-South. In 1999, we'll place additional I-PASS EXPRESS lanes at 163rd Street on the Tri-State, Army Trail Road on the North-South and the Aurora Toll Plaza on the East-West.

About 60,000 Tollway drivers, responsible for five percent of traffic each day, use I-PASS, which electronically deducts tolls from their accounts as they move through plazas. We plan to expand that number to 200,000 by year-end 1999. To reach that goal, we've made opening an account as simple as dialing 1-800-UC-I-PASS. And we've instituted automatic replenishment. Whenever a balance drops below $10, we'll refill it to a level the customer authorizes in advance. More than 75 percent of I-PASS users take advantage of this convenience.

No reaching for coins. No lowering the window. No stopping to pay tolls. Moving at th

To build a better system, sometimes you have to tear things down.
One way to
And that's just what we're about to do. In 1998, we will halt toll collection and begin the process of
dismantling the Deerfield Toll Plaza, a location that also is one of
Nearly 130,000 vehicles pass through
each day.
We've known for years the plaza was a bottleneck.
the feasibility of widening it, splitting it, moving it.
Then in 1997, we found a workable solution that local municipalities, county officials and area businesses endorsed.
Taking its place: the I-PASS EXPRESS-equipped Edens Spur Plaza, as well as unattended toll lanes at our existing Golf
Road and Willow Road ramps on the Tri-State.
As for the Deerfield Plaza, we expect to minimize delays for our customers during demolition and speed the
tion to the newer and faster alternative toll collection sites.

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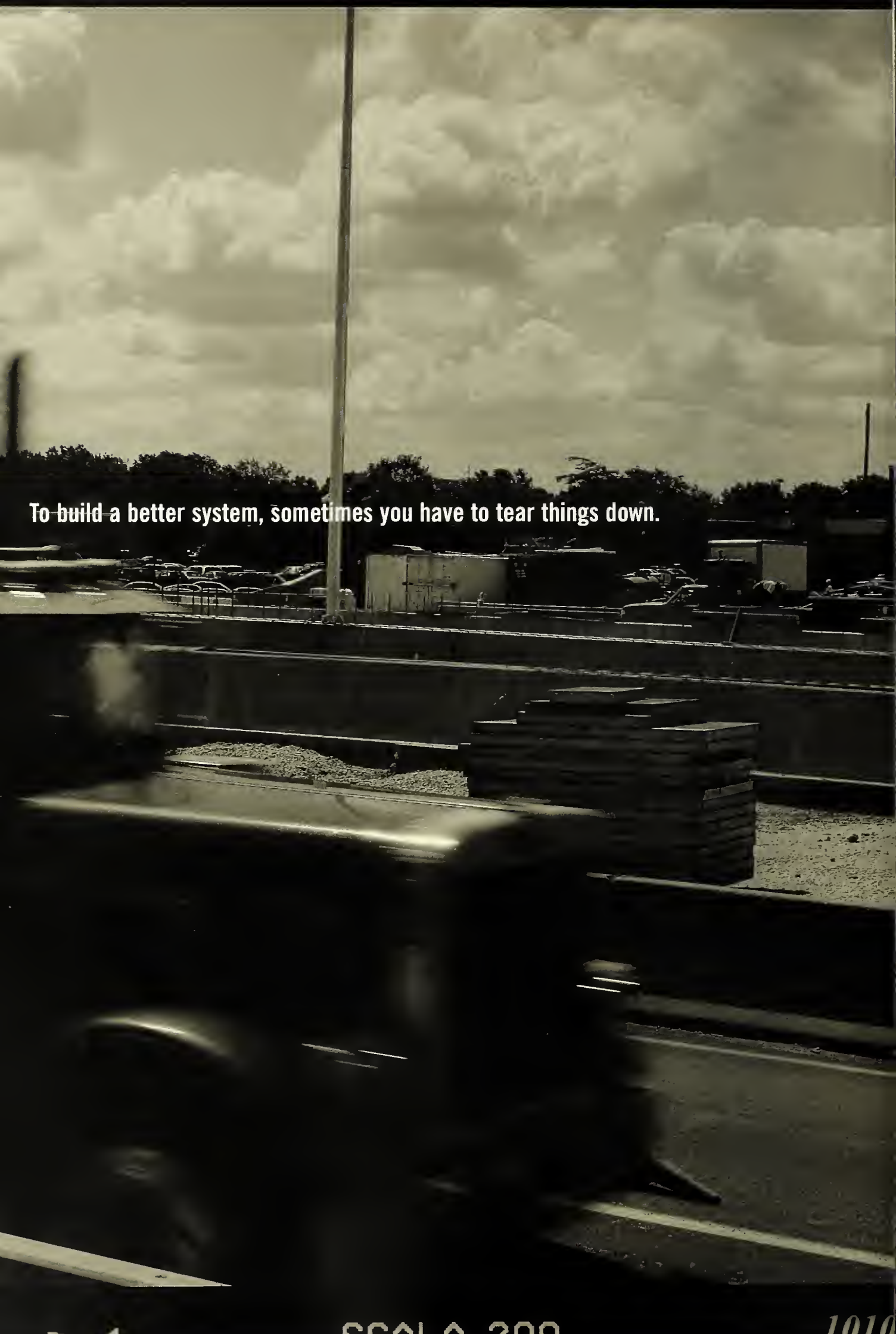

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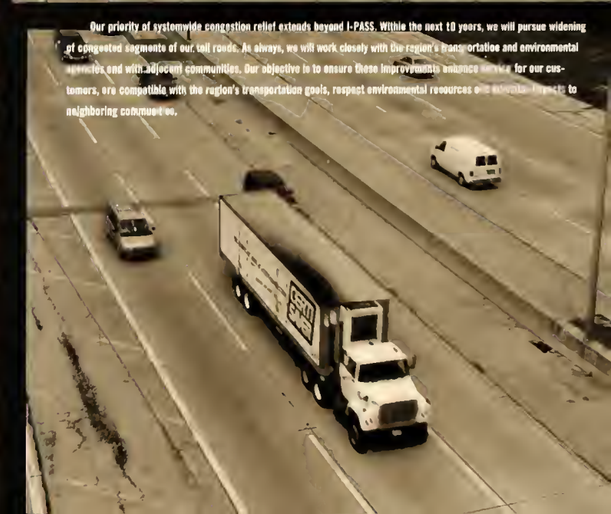
A long look down the road. That's critical to keeping the tollway ready for the future.

Traffic growth is non-stop. Each year, 50,000 additional vehicles per day hit the road on what is already the country's busiest tollway system.

To stay ahead of that growth, we're investing more than $750 million over the next five years to improve our system. Our aggressive schedule of modernization, expansion and rehabilitation includes opening I-PASS EXPRESS and I-PASS only lanes at every mainline toll plaza by the end of 2000.

Our priority of systemwide congestion relief extends beyond I-PASS. Within the next 10 years, we will pursue widening of congested segments of our toll roads. As always, we will work closely with the region's transportation and environmental agencies and with adjacent communities. Our objective is to ensure these improvements enhance service for our customers, are compatible with the region's transportation goals, respect environmental resources and minimize impacts to neighboring communities.

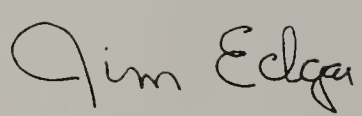


The Illinois Tollway provides a vital link in meeting the transportation needs of our region, which extends beyond Chicago into Indiana, Wisconsin and Iowa. And, as the Chicago metropolitan area continues to grow, the Tollway's role takes on ever more importance.

I commend the Authority on keeping the system safe, well maintained and convenient, while never losing sight of the future demands of the thousands of individuals and businesses that rely on the system each day.

I wish to thank the employees of the Tollway under the leadership of Julian C. D'Esposito and Ralph C. Wehner.

Sincerely,



Jim Edgar
Governor

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
Illinois State Toll Highway Authority
Downers Grove, Illinois

We have audited the accompanying balance sheets of Illinois State Toll Highway Authority, a component unit of the State of Illinois, as of December 31, 1997 and 1996, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of Illinois State Toll Highway Authority management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois State Toll Highway Authority, as of December 31, 1997 and 1996 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Illinois State Toll Highway Authority. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson L.L.C.

Peoria, Illinois
April 3, 1998

Illinois State Toll Highway Authority Balance Sheets

Assets	December 31 1997	1996
Current Unrestricted Assets:		
Cash and cash equivalents	$ 321,318,207	$ 312,676,923
Accounts receivable, less allowance for doubtful accounts (1997 - $1,568,917; 1996 - $1,405,789)	7,398,538	8,606,728
Intergovernmental receivable	92,833	2,040,554
Accrued interest receivable	1,302,665	1,278,430
Prepaid expense	3,665,724	3,755,313
Total current unrestricted assets	333,777,967	328,357,948
Restricted Assets:		
Cash and cash equivalents restricted for debt service	27,738,127	31,362,399
Investments restricted for debt service, at amortized cost (market value: 1997 - $158,815,334; 1996 - $158,815,000)	176,506,664	167,137,574
Accrued interest receivable	2,878,198	4,106,843
Construction funds held by trustee	11,426,520	10,865,251
Risk management restricted cash	5,548,817	5,947,908
Net assets available for pension plan benefits	740,559	936,261
Total restricted assets	224,838,885	220,356,236
Property, Plant, and Equipment, net	1,724,808,729	1,703,701,313
Deferred bond issuance costs, net of accumulated amortization of $9,258,880 in 1997 and $7,576,000 in 1996	16,690,445	18,373,781
Total Assets	$ 2,300,116,026	$ 2,270,789,278
Liabilities and Fund Equity		
Current Liabilities:		
Payable from unrestricted current assets:		
Accounts payable	$ 14,302,414	$ 5,091,449
Accrued liabilities	45,873,172	36,792,543
Deposits and retainages	7,019,366	7,085,067
Total current liabilities payable from unrestricted current assets	67,194,952	48,969,059
Payable from restricted assets:		
Current portion of revenue bonds payable	26,610,000	30,290,000
Accrued interest payable	24,376,551	23,773,199
Risk management claims payable	5,194,978	5,611,772
Pension obligation	61,680	289,822
Total current liabilities payable from restricted assets	56,243,209	59,964,793
Long-Term Liabilities:		
Revenue bonds payable, less current portion	899,489,496	925,850,331
Fund Equity:		
Reserved for revenue bond retirements and interest	156,136,438	148,543,617
Reserved for risk management claims	353,839	336,136
Reserved for construction funds held by trustee	11,426,520	10,865,252
Unreserved	1,109,271,572	1,076,260,090
Total fund equity	1,277,188,369	1,236,005,095
Total Liabilities and Fund Equity	$ 2,300,116,026	$ 2,270,789,278

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

	Years ended December 31 1997	1996
Operating Revenues		
Toll revenue	$ 317,979,697	$ 308,567,206
Concessions	4,386,576	3,575,804
Miscellaneous	1,090,143	198,404
Total operating revenues	323,456,416	312,341,414
Operating Expenses		
Engineering and maintenance of roadway and structures	26,223,950	25,403,333
Services and toll collection	50,319,415	49,230,279
Traffic control, safety patrol, and radio communications	12,594,238	11,925,970
Administrative	9,810,964	8,054,288
Insurance and employee benefits	31,600,316	27,845,207
Depreciation and amortization	125,724,621	121,702,953
Total operating expenses	256,273,504	244,162,030
Operating income	67,182,912	68,179,384
Nonoperating Revenue (Expenses)		
Interest income	27,618,558	30,834,455
Gain (loss) on sales of investments	(133,249)	72,650
Net gain on disposal of property	355,116	724,548
Interest expense and amortization of financing costs	(53,840,063)	(54,631,427)
Total nonoperating expenses, net	(25,999,638)	(22,999,774)
Net Income	41,183,274	45,179,610
Fund Equity at Beginning of Year	1,236,005,095	1,190,825,485
Fund Equity at End of Year	$ 1,277,188,369	$ 1,236,005,095

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

	Years ended December 31 1997	1996
Cash Flows From Operating Activities		
Operating income	$ 67,182,912	$ 68,179,384
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	125,724,621	121,702,953
Provision for uncollectible accounts, net of accounts written off	163,128	(43,296)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(480,827)	(424,125)
Prepaid expenses	(137,083)	343,869
Net assets available for pension benefits	195,702	8,676,332
Accounts payable	(1,290,629)	(758,125)
Accrued liabilities	(1,636,621)	(320,139)
Pension obligation	228,142	(9,003,446)
Deposits and retainages	476,687	558,167
Risk management claims payable	(501,338)	369,758
Net cash provided by operating activities	189,468,410	189,281,332
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(122,748,044)	(170,169,600)
Proceeds from sale of property	548,299	973,064
Defeasance of revenue bonds		(144,300,000)
Principal paid on revenue bonds	(30,290,000)	(25,750,000)
Issuance of revenue bonds	-	148,285,000
Deferred loss on refunding	249,165	(4,999,670)
Principal paid on capital lease obligation		(261,115)
Interest expense and financing costs paid on revenue bonds and capital lease	(51,369,270)	(55,712,050)
Net cash used in capital and related financing activities	(203,609,850)	(251,934,371)
Cash Flows From Investing Activities		
Purchase of investment securities	(77,036,664)	(64,350,634)
Proceeds from sales and maturities of investment	67,534,326	65,982,238
Interest on investments	28,822,968	30,238,245
Net cash provided by investing activities	19,320,630	31,869,849
Net Increase (Decrease) in Cash and Cash Equivalents	5,179,190	(30,783,190)
Cash and Cash Equivalents at Beginning of Year	360,852,481	391,635,671
Cash and Cash Equivalents at End of Year	$ 366,031,671	$ 360,852,481
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	321,318,205	$ 312,676,923
Cash and cash equivalents restricted for debt service	27,738,127	31,362,399
Construction funds held by trustee	11,426,520	10,865,251
Risk management restricted cash	5,548,817	5,947,908
Total Cash and Cash Equivalents at End of Year	$ 366,031,671	$ 360,852,481

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

Summary of Significant Accounting Policies The accounting policies and financial reporting practices of Illinois State Toll Highway Authority (the Authority), a component unit of the State of Illinois, conform to generally accepted accounting principles, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Authority has elected to not apply FASB pronouncements issued after November 30, 1989.

Financial Reporting Entity The Illinois State Toll Highway Authority was created by an Act of the General Assembly of the State of Illinois for the purpose of constructing, operating, regulating, and maintaining a toll highway or a system of toll highways and, in connection with the financing of such projects, is authorized to issue revenue bonds which shall be retired from revenues derived from the operation of the Authority. Under the provisions of the Act, no bond issue of the Authority, or any interest thereon, is an obligation of the State of Illinois. In addition, the Authority is empowered to issue refunding bonds for the purpose of refunding any revenue bonds issued under the provisions of the above Act, which are then outstanding.

The enabling legislation empowers the Authority's Board of Directors with duties and responsibilities which include, but are not limited to, the ability to approve and modify the Authority's budget, the ability to approve or modify toll rates and fees charged for use of the system, the ability to employ and discharge employees as is necessary in the judgment of the Authority, and the ability to acquire, own, use, hire, lease, operate, and dispose of personal property, real property, and any interest therein. The Authority's employees and the State Police assigned to the Authority participate in the State Employees' Retirement System (SERS). The SERS is a statewide plan and is not included in the accompanying financial statements.

The Authority's financial statements include all activities that are part of the Authority's reporting entity because of the significance of the operational or financial relationship in conformity with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity.*

Basis of Accounting The Authority uses the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned, and expenses are recognized in the period in which they are incurred.

Measurement Focus The Authority's accounting is based on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity are included on the balance sheet. The operating statement presents increases (revenues) and decreases (expenses) in net total assets.

Cash Equivalents For purposes of the Statements of Cash Flows, the Authority considers all highly liquid investments including restricted assets with a maturity of three months or less when purchased and all investments held by the State Treasurer's office to be cash equivalents, as these investments are available upon demand.

Investments Investments are recorded at cost. Adjustments are made to cost for any premium or discount, which is amortized over the term of the investment.

The 1985 Trust Indenture, as amended. under which the Authority's revenue bonds were issued, authorizes the Authority to invest in U.S. Treasury and agency issues, money market funds comprised of U.S. Treasury and agency issues, repurchase agreements thereon, time deposits, and certificates of deposit.

Property, Plant, and Equipment Property, plant, and equipment include the historical cost of land, roadway and structures, buildings, and related improvements and equipment. Expenses for the maintenance and repairs of the roadway and structures, buildings, and related improvements are charged to operations when incurred. Depreciation and amortization are computed using the straight-line method based on estimated useful lives, as follows:

Buildings and infrastructure	20 to 40 years
Machinery and equipment	3 to 10 years

Deferred Bond Issuance Costs Costs incurred in connection with the issuance of the 1996 Series A, 1993 Series A and B, 1992 Series A, 1987 Series, and 1986 Series bonds are amortized over the life of the bonds, using the effective interest method. Portions of the bond issuance cost amortization incurred during the construction period are capitalized and amortized over the life of the capitalized asset using the straight-line method.

Debt Refunding In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* the difference between the carrying amount and the reacquisition price of the old bonds is deferred and amortized over the lesser of the life of the old debt or the life of the new debt.

Risk Management The Authority has self-insured risk retention programs with stop-loss limits for current employee group health and workers' compensation claims and has provided accruals for estimated losses arising from such claims.

The Authority has entered into an interest rate swap agreement to synthetically fix the interest rate on variable rate bonds for the long term.

Note 1 – Cash and Investments

The Authority's cash and investments are classified on the balance sheets as unrestricted and restricted. At December 31, 1997 and 1996, the carrying amounts and bank balances of the Authority's cash deposits were as follows:

	1997	1996
Carrying amount:		
Cash deposits	$ 5,199,426	$ 11,300,424
Money market	27,614,670	15,284,086
Time deposits	61,737,000	62,122,000
Total carrying amounts	$ 94,551,096	$ 88,706,510
Bank balances	$ 105,523,839	$ 95,597,215

At December 31, 1997 and 1996, $105,141,800 and $95,201,833, respectively, were covered by federal depository insurance or collateralized with securities held by the Authority's agent in the Authority's name. The remaining balances of $382,039 and $395,382 at December 31, 1997 and 1996, respectively, were uninsured and uncollateralized.

The Authority's cash equivalents and investments are categorized in the following table to give an indication of the level of risk assumed by the Authority at December 31, 1997 and 1996:

	Category 1	Carrying Amount	Fair Value
December 31, 1997			
U.S. Treasury and agency issues	$ 143,833,177	$ 143,833,177	$ 141,122,046
Bank repurchase agreements	304,154,062	304,154,062	304,154,062
Total	$ 447,987,239	$ 447,987,239	$ 445,276,108
December 31, 1996			
U.S. Treasury and agency issues	$ 139,895,533	$ 139,895,533	$ 131,573,292
Bank repurchase agreements	299,388,012	299,388,012	299,388,012
Total	$ 439,283,545	$ 439,283,545	$ 430,961,304

Category 1 includes investments that are insured or registered, or for which securities are held by the Authority, or its agent, in the Authority's name. The carrying amount of cash and cash equivalents approximates its fair value. The fair values for investments are based on market prices.

Note 2 – Property, Plant, and Equipment

	1997	1996
Property, plant, and equipment at December 31 are as follows:		
Land and improvements	$ 183,081,023	$ 183,873,564
Buildings and infrastructure	2,513,787,999	2,478,248,404
Machinery and equipment	95,114,650	84,142,531
Construction in progress	305,201,586	205,724,606
	3,097,185,258	2,951,989,105
Accumulated depreciation and amortization	1,372,376,529	1,248,287,792
Total	$ 1,724,808,729	$ 1,703,701,313

In September 1996, operation in Plaza 15 at I-90 and Rt. 53 Interchange on Northwest Tollway was discontinued. This resulted in a loss on disposal of property in the amount of $308,439.

Note 3 – Revenue Bonds Payable

On October 10, 1996, the Authority issued revenue bonds (1996 Refunding Bonds) aggregating $148,285,000 with interest ranging from 4.7 to 6.0 percent to refund $144,300,000 of outstanding revenue bonds with interest ranging from 6.05 to 6.85 percent (current refunding). The proceeds of the issuance of the 1996 Refunding Bonds were used to purchase Treasury obligations in the amount of $148,804,352 which were deposited in an irrevocable trust which, with interest thereon, will be sufficient to pay the outstanding principal, interest, and redemption price of the 1996 refunded maturities. The remaining funds were used to pay for the costs, fees, and premiums related to the issuance of the 1996 Refunding Bonds. The 1996 Series A Bonds are not subject to redemption prior to maturity. This bond issue is insured by Financial Guaranty Insurance Company using its Municipal Bond New Issue Insurance Policy.

Although the current refunding resulted in the recognition of an extraordinary accounting loss of approximately $5,139,000 in 1996 based upon the required deposit to the irrevocable trust and write off of related unamortized deferred bond issuance costs, the Authority in effect has reduced its aggregate debt service payments by approximately $9,125,000 over the next 12 years and obtained an economic gain or present value savings of approximately $8,467,000.

Note 3 – Revenue Bonds Payable (continued)

	1997	1996
Details of outstanding revenue bonds are as follows:		
Issue of 1985, 8.40 percent, due January 1, 1997	$ –	$ 5,665,000
Issue of 1986, 6.70 percent, due January 1, 1997		15,920,000
Issue of 1987, 5.90 percent, due January 1, 1997		1,335,000
Issue of 1992, 5.75 to 6.45 percent, due on various dates through January 1, 2017	[illegible]	413,770,000
Issue of 1993 Series A, 3.50 to 5.00 percent, due on various dates through January 1, 2005	193,495,000	197,965,000
Issue of 1993 Series B, 2.50 to 5.75 percent, due on various dates through January 1, 2010	178,200,000	178,200,000
Issue of 1996 Series A, 4.70 to 6.00 percent, due on various dates through January 1, 2009	145,385,000	148,285,000
Total	930,850,000	961,140,000
Less deferred amount on refunding	4,750,504	4,999,669
Less current portion	26,610,000	30,290,000
Total long-term portion	$ 899,489,496	$ 925,850,331

Interest payments for the years ended December 31, 1997 and 1996 were $50,351,129 and $56,826,125, respectively.

The Toll Highway Refunding Bonds, 1987 Series; the Toll Highway Priority Revenue Bonds, 1986 Series; and the Toll Highway Refunding Revenue Bonds, 1985 Series, which mature on or after January 1, 1997, are subject to optional redemption prior to a maturity on or after January 1, 1996, at the respective redemption prices (expressed as a percentage of the principal amount of the bonds) set forth below, together with interest accrued at the date of redemption:

	Redemption Price	
Redemption Period	**1987 Series and 1986 Series**	**1985 Series**
January 1, 1996 through December 31, 1996	102.00%	102.00%
January 1, 1997 through December 31, 1997	101.00%	101.50%
January 1, 1998 through December 31, 1998	100.00%	101.00%
January 1, 1999 through December 31, 1999	100.00%	100.50%
January 1, 2000 and thereafter	100.00%	100.00%

The Toll Highway Priority Revenue Bonds, 1992 Series A, maturing on January 1, 2011 and January 1, 2012 ($100,665,000), are not callable for redemption prior to maturity. The other Toll Highway Priority Revenue Bonds, 1992 Series A ($313,105,000) (Callable Bonds) are subject to optional redemption prior to maturity on or after January 1, 2003, at the redemption prices (expressed as a percentage of the principal amount of the bonds) set forth below, together with interest accrued at the date of redemption:

	Redemption Price
Redemption Period	**1992 Series A**
January 1, 2003 through December 31, 2003	102.00%
January 1, 2004 through December 31, 2004	101.00%
January 1, 2005 and thereafter	100.00%

The Authority may exercise the right of optional redemption of the Callable Bonds to the extent that it has not sold the rights to call any such 1992 Series A Bonds for mandatory tender for purchase (Option Rights). If Option Rights have been sold for a portion of the Callable Bonds of a particular maturity, the Authority may call for optional redemption a principal amount not exceeding the principal amount of that maturity for which Option Rights have not been sold.

In addition to being subject to optional redemption as described above, the Callable Bonds are subject to mandatory tender for purchase at the purchase price (expressed as a percentage of the principal amount of the bonds) set forth below, together with interest accrued at the purchase date:

	Purchase Price
Mandatory Tender Period	**1992 Series A**
January 1, 2003 through December 31, 2003	102.00%
January 1, 2004 through December 31, 2004	101.00%
January 1, 2005 and thereafter	100.00%

To the extent permitted by law, the mandatory tender and purchase of any Callable Bonds will not operate to extinguish or discharge the indebtedness evidenced by such Callable Bonds. The right of the Authority to require the mandatory tender of all or any portion of the Callable Bonds is an "Option Right." The Authority may sell the Option Rights upon obtaining an opinion of a nationally recognized municipal bond counsel. Such sale shall transfer to the owner of the Option Right the right of the Authority to require the mandatory tender of specified Callable Bonds during the Mandatory Tender Period and at the Purchase Price set forth above, together with interest accrued at the purchase date.

The 1993 Refunding Bonds were issued in two series, $209,145,000 of Toll Highway Refunding Revenue Bonds, 1993 Series A and $178,200,000 of Toll Highway Refunding Revenue Bonds, 1993 Series B.

Note 3 – Revenue Bonds Payable (continued)

The 1993 Series A Bonds were issued with various maturities in the years 1994 to 2005, bearing interest rates from 2.4 to 5.0 percent. The 1993 Series A Bonds maturing on January 1, 2005, are subject to optional redemption prior to maturity on or after January 1, 2003, at the redemption price of the principal amount plus accrued interest thereon to the date fixed for redemption. None of the other 1993 Series A Bonds are subject to optional or mandatory tender.

The 1993 Series B Bonds were issued with various maturities in the years 2006 to 2010, bearing interest at a variable rate to be marketed under the terms of a remarketing agreement and are payable each January 1 and July 1, commencing July 1, 1993. The 1993 Series B Bonds can be converted to a term or fixed rate. The 1993 Series B Bonds are subject to optional and mandatory tender and redemption. The Authority has arranged for a letter of credit under the terms of a reimbursement agreement ($197,963,112 at December 31, 1997 and 1996). The letter of credit has been placed with the tender agent to be used for the purchase of tendered 1993 Series B Bonds.

In addition to the pledge of revenues, the Authority has acquired a Surety Bond to be used in conjunction with available revenues for the funding of the Debt Reserve Requirements for the 1993 Bonds. The Authority has obtained a Municipal Bond Insurance Policy to guarantee the payment of principal and interest on the 1993 Series B Bonds on the scheduled maturity dates.

On March 24, 1993, the Authority entered into an Interest Rate Swap Agreement (Swap Agreement) with the 1993 Swap Provider for the entire amount of the 1993 Series B Bonds ($178,200,000). Under the terms of this agreement, each June 30 and December 31, beginning June 1993 and ending December 2009, the Authority will pay a synthetic interest rate of 4.92 percent on the outstanding 1993 Series B Bonds until maturity. The difference between the synthetic fixed rate and the variable interest rate is recognized as an adjustment to interest expense.

The Swap Agreement contains provisions for the termination of the agreement. Upon termination, a payment would be made to the nondefaulting party effectively preserving the economic equivalent of the payments of both parties to the agreement, thereby minimizing the Authority's exposure to variable interest rates. Additionally, the Swap Agreement recognizes the rate conversion feature of the 1993 Series B Bonds which provides for these bonds to be converted to a fixed or term rate.

The Trust Indenture requires allocations of revenues to the debt service account in amounts sufficient to retire the following principal and interest amount for all bonds outstanding at December 31, 1997:

	Debt Service			Priority Debt Service		
Years Ended January 1	Principal	Interest	Debt Service	Principal	Interest	Debt Service
1998	$ 26,610,000	$ 25,193,940	$ 51,803,940	$ –	$ 25,760,540	$ 25,760,540
1999	27,835,000	23,960,550	51,795,550	–	25,760,540	25,760,540
2000	33,580,000	22,692,290	56,272,290	–	25,760,540	25,760,540
2001	35,140,000	21,131,865	56,271,865	–	25,760,540	25,760,540
2002	36,795,000	19,480,285	56,275,285	–	25,760,540	25,760,540
2003	38,550,000	17,727,100	56,277,100	–	25,760,540	25,760,540
2004	40,395,000	15,878,920	56,273,920	–	25,760,540	25,760,540
2005	42,475,000	13,799,546	56,274,546	–	25,760,540	25,760,540
2006	44,125,000	12,111,640	56,236,640	–	25,760,540	25,760,540
2007	46,405,000	9,903,660	56,308,660	–	25,760,540	25,760,540
2008	49,045,000	7,470,360	56,515,360	–	25,760,540	25,760,540
2009	51,725,000	4,898,100	56,623,100	–	25,760,540	25,760,540
2010	44,400,000	2,184,480	46,584,480	–	25,760,540	25,760,540
2011	–	–	–	48,795,000	25,760,540	74,555,540
2012	–	–	–	51,870,000	22,686,455	74,556,455
2013	–	–	–	55,140,000	19,418,645	74,558,645
2014	–	–	–	58,670,000	15,888,470	74,558,470
2015	–	–	–	62,410,000	12,148,258	74,558,258
2016	–	–	–	66,385,000	8,169,620	74,554,620
2017	–	–	–	70,500,000	4,053,750	74,553,750
Total	$ 517,080,000	$ 196,432,736	$ 713,512,736	$ 413,770,000	$ 443,012,758	$ 856,782,758

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the accompanying financial statements. At December 31, 1997, $76,783,000 of bonds outstanding are considered defeased.

Note 4 – Contributions to State Employees' Retirement System

Substantially all of the Authority's full time employees, as well as the State Police assigned to the Authority who are not eligible for any other state-sponsored retirement plan, participate in the State Employees' Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. The SERS is a single-employer public employee retirement system (PERS) in which the State's departments and agencies participate on a cost-sharing basis. The SERS issues a separate component unit financial report (CUFR). The financial position and results of operations of the SERS for fiscal year 1997 and employer disclosures are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 1997.

The SERS was established in 1944 and is governed by Article 14 of the Illinois Pension Code. Employees who retire at or after age 60 with 8 years of credited service (or at age 55 with at least 30 years of service with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon final average compensation (average salary for the 48-consecutive-month period within the last 120 months of service in which total compensation was the highest) and credited service. The SERS provides for annuities of 1 to 1.67 percent of final average compensation for each of the first 10 years of service, 1.1 to 1.9 percent for each of the next 10 years, 1.3 to 2.1 percent for each of the third 10 years, and 1.5 to 2.3 percent for each year over 30 years of service. The maximum pension payable is 75 percent of final average compensation. Employees with 35 years of credited service may retire at any age with full benefits. The SERS also provides occupational and nonoccupational disability and death benefits.

On July 15, 1997, the Governor of the State of Illinois signed House Bill 110 into law as Public Law 90-0065. This comprehensive bill contained numerous provisions affecting the SERS. The most significant change, however, involved the System's transition from a step rate retirement benefit formula to a flat rate retirement benefit formula. The increased retirement benefit formula is applicable to all eligible members with a retirement effective date on or after January 1, 1998.

Employees are obligated to contribute to the SERS based upon their compensation. Employees coordinated with Social Security generally contribute 4 percent, while those not coordinated contribute 8 percent. The payments of required agency contributions, all allowances, annuities, benefits granted under Article 14 of the Illinois Pension Code, and all expenses of administration of the system, are obligations of the State of Illinois to the extent specified in the Illinois Pension Code.

The Authority's total and covered payroll, which includes all employees, for the years ended December 31, 1997 and 1996 was $76,428,000 and $73,999,000, respectively. Effective in January of 1995, Illinois State Toll Highway Authority paid for the contributions of most employees covered by SERS in accordance with the Collective Bargaining Unit Agreements. The contributions and percent of covered payroll for each of the years ended December 31, 1997 and 1996 were as follows:

	1997	1996	Percent of Covered Payroll 1997	Percent of Covered Payroll 1996
Authority contribution	$ 3,828,987	$ 3,170,774	5.00%	4.30%
Employees' contribution paid by the Authority	2,704,295	2,516,024	3.50%	3.40%
Employees' contribution	24,822	23,854	0.00%	0.00%
Total	$ 6,558,104	$ 5,710,652	8.50%	7.70%

The pension benefit obligation described below is the actuarial present value of credited projected benefits for all members of SERS, including the Authority's. It is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the PERS funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The SERS does not make separate measurement of assets and pension benefit obligations for individual departments and agencies.

The SERS total pension benefit obligation at June 30, 1997, determined through an actuarial valuation at that date, was approximately $7.5 billion. The SERS actuarial value of assets available for benefits on that date, valued at cost, was $6.0 billion, leaving an unfunded pension benefit obligation of $1.5 billion. The Authority's 1997 and 1996 contribution requirements represented 2.4 percent of total contributions required of all state agency/department employers participating in the SERS. The total number of plan participants at June 30, 1997 was 122,219.

The assumptions used to compute the SERS pension benefit obligation included an investment return of 8.5 percent, postemployment benefit increases of 3 percent, and projected salary increases of 0.5 to 4.7 percent based on the age of the participants.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued financial report for the year ended June 30, 1997.

In addition to participation in the above retirement plan, effective July 1, 1990, the Authority adopted under the provisions of the Authority Act (605 ILCS 10/1 et. seq.), a noncontributory defined-benefit pension plan covering employees who are members of the SERS and who are not members of any collective bargaining unit. The plan was intended to meet the requirements of a tax-qualified plan under Section 401(a) of the Internal Revenue Code. The plan provided benefits based upon years of service and employee compensation levels. The Authority's policy was to make contributions consistent with sound actuarial practice. Annual cost was determined using the projected unit credit actuarial method.

Note 4 – Contributions to State Employees' Retirement System (continued)

The Authority suspended the plan's benefits as of September 15, 1994 and terminated the plan effective December 31, 1994. As of December 31, 1996, the pension plan benefit obligation of $289,822 was fully funded by net assets available for benefits of $936,261 and as of December 31, 1997, the pension plan benefit obligation of $61,680 was fully funded by net assets available for benefits of $740,559 (valued at the lesser of market value or actuarial value of assets).

Under provisions of SERS, the Authority provides certain health, dental, and life insurance benefits to annuitants who are former Authority employees. Substantially all Authority employees may become eligible for postemployment benefits if they eventually become annuitants. Currently, 515 employees meet the eligibility requirements. Health and dental benefits include basic benefits for annuitants under the Authority's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 or older. The cost of postemployment benefits is recognized on a pay-as-you-go basis, and for the years ended December 31, 1997 and 1996, approximately $1,795,000 and $1,227,000, respectively, of expense were recognized for postemployment benefits.

Note 5 – Risk Management

The Authority has self-insured risk retention programs for worker's compensation claims; the Authority's exposure under this program is limited to self-insured retentions of $350,000 per worker's compensation incident. The Authority has a claims paid policy for a portion of the employee's health plan with stop-loss coverage exceeding $100,000 per policy year, with the remainder of the plan covered by the purchase of commercial insurance policies. In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimated liabilities for asserted workers' compensation claims of $4,115,320 and both asserted and unasserted employee health claims of $879,658 are included in the accompanying financial statements.

Year	Estimated Claims Payable Beginning of Year	Current Claims	Current Payments	Estimated Claims Payable End of Year
1995	$ 5,958,740	$ 5,057,604	$ 6,007,599	$ 5,008,745
1996	5,008,745	6,508,814	6,105,787	5,411,772
1997	5,411,772	7,743,534	8,160,328	4,994,978

Additionally, the Authority purchases commercial insurance policies for general liability insurance, vehicle liability damage to fixed assets other than vehicles, which has a level of retention of $50,000 per occurrence with an annual aggregate maximum of $500,000. The accompanying financial statements reflect a $200,000 reserve for retention under this policy.

Note 6 – Compensated Absences

Authority employees earn annual leave based upon length of employment and can accumulate leave up to a maximum of 24 months credit. Any days in excess of the maximum will be forfeited. Payments will not be made in lieu of vacation except upon death or termination of employment. The payment provided shall not be allowed if the purpose of the separation from employment and any subsequent re-employment is for the purpose of obtaining such payment. In February 1997, the Authority adopted a new policy providing certain employees with a monthly accrual for their annual leave.

Sick leave is earned one (1) day per month with unlimited accumulation and is paid only for absence due to illness or other circumstances, as outlined by personnel regulations. The amounts of unpaid annual leave and sick leave accumulated by Authority employees are accrued when earned. The Authority's liability for unused annual leave and sick leave is recorded in the accompanying financial statements at the employee's current salary level.

Note 7 – Cash Flow Disclosures

The Authority had the following noncash financing transactions: During the year ended December 31, 1997, $22,129,171 of fixed assets were financed through accounts payable and accrued liabilities.

During the year ended December 31, 1997, $3,473,610 of fixed asset purchases were billed to other entities and included in accounts receivable and intergovernmental receivables.

Note 8 – Commitments

In addition to amounts already recorded, contracts of approximately $165,500,000 have been let and are outstanding as of December 31, 1997 for projects to be included under the Authority's construction accounts.

Note 9 – Pending Litigation

Contractors and other parties have filed lawsuits against the Authority claiming damages for breach of contract, in connection with the construction and design contracts on the Tollway and for wrongful discharge of employees. Other suits for personal injuries have been filed; however, the Authority's exposure is limited to self-insured retention of $100,000 per general liability incident and $350,000 per workers compensation incident. Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that the outcome of these matters will have no material adverse effect on the financial position of the Authority.

Note 10 – Reclassification

Certain items in the December 31, 1996 financial statements have been reclassified to conform to the presentation in the December 31, 1997 financial statements.

Supplementary Information

Illinois State Toll Highway Authority Schedules of Comparison of Toll Revenue by Class of Vehicles and Other Revenue Sources

December 31, 1997 and 1996

(Unaudited)

	Year ended December 31			
	1997		1996	
	Average Daily Transactions*	Revenue	Average Daily Transactions*	Revenue
Class of Vehicle				
1. Auto, motorcycle, taxi,station wagon, ambulance, single-unit truck or tractor; 2 axles, 4 tires	1,771,11	$ 246,210,4	1,69 5	$ 230,181,02
2. Single-unit truck or tractor,buses; 2 axles, 6 tires	32,380	5,903,5	31 877	5 695 70
3. Trucks and buses with 3 axles	11,68	3,176,16	11,439	3,050,57
4. Trucks with 4 axles	9,58	3,562,835	9 636	3,464,9
5. Trucks with 5 or more axles,other vehicles, and toll adjustments				
Total		317 979,697	1,896 038	308 567,206
Other Revenues				
Concessions		4,38		5,575 80
Miscellaneous				
Total		$ 323,456,416		$ 312,341,414

*The *Average Daily Transactions* represents the average daily number of vehicles passing through toll plazas.

Schedule of Fixed Assets by Source

For the Year Ended December 31, 1997

(Unaudited)

Fixed Assets	
Land and improvements	$
Buildings and infrastructure	2 13 787,999
Vehicles	24 3,24
Office equipment	1 027,03
Information systems	45,565,86
Departmental and other equipment	21,540,20
Toll collection equipment	8,313
Construction in progress	
Total Fixed Assets	$
Investments in fixed assets provided from	
Bond proceeds, net of related interest income	$
Revenues	
Total Investments in Fixed Assets	$

Schedule of Changes in Fixed Assets

For the Year Ended December 31, 1997

(Unaudited)

	Fixed Assets January 1,1997	Additions	Deletions	Fixed Assets December 31,1997
Land and improvements	$	$	$	$
Buildings and infrastructure	2,478,248,404	35,894,26	354,66	2,513 787,99
Vehicles	24 03 297	39,943		24 3,24
Office equipment	997,996	40,52	1 494	1,02
Information systems	4,07 ,679	1,575 740	87,	45,56 ,86
Departmental and other equipment	22,125,246	2 50	627,54	21 540,20
Toll collection equipment	2,238,3 3			2,238 313
Construction in progress		99 476 98		
Total Investments in Fixed Assets	$	$ 148 350 825	$ 54 54,67	$ 3 097 185 258

Design: Froelke Design Company, Inc. Editorial: LoCurto and Associates Photography: Tony Arruza Photography Printing: Rodel Dickerson, Inc.

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